

## HYBRID CONTRACTS IN TRADE FINANCE AND LETTERS OF CREDIT AGAINST MULTIPURPOSE FINANCING

Hamlatussa'adah Yustika Pratiwi<sup>1</sup>, Nana Herdiana Abdurrahman<sup>2</sup>, Yoyok Prasetyo<sup>3</sup>

<sup>1,2,3</sup>Sharia Economic Law, UIN Sunan Gunung Djati Bandung

E-mail: <sup>1</sup>) hamlatussaadahy.p@gmail.com, <sup>2</sup>) nanaherdiana@uinsgd.ac.id <sup>3</sup>) yoyok@uninus.ac.id

### Abstract

*The concept of "Hybrid Contract" in Islamic financial institutions refers to the combination or combination of two or more types of contracts or sharia agreements to achieve certain goals in accordance with sharia principles. In the context of Islamic banking, this refers to the use of more than one type of contract or financing mechanism in a single transaction to meet complex needs and requirements. Hybrid Contract in trade finance and Letter of Credit (L/C) multipurpose financing in sharia financial institutions refers to the combination or combination of two or more different types of sharia contracts or agreements to meet the needs of complex trade finance and multipurpose financing in the sharia context. This is a flexible approach that allows Islamic financial institutions to design financing solutions that comply with Sharia principles and the needs of their customers.*

**Keywords:** *Hybird Contract, Trade Finace, Letter Of Credit*

### 1. INTRODUCTION

In this era of globalization, it has become easier for countries to establish business relations with other countries to meet the needs of their population. International trade, of course, requires special mechanisms that are relatively more complicated than domestic trade. Therefore, a tool is needed that can facilitate international trade transactions, especially in the field of payment systems.

Not only that, but the economic needs of the community also involve various activities such as buying and selling goods, borrowing and lending objects, working to generate income, renting personal property to others, and so on. All these activities require the involvement of other people or institutions to fulfill them, because humans cannot meet these needs independently.

The institution referred to in this context can be a financial entity such as a bank, insurance company, leasing company, or other lending institution. They must present products that have supporting characteristics, namely prospective, easy to use, efficient in terms of cost, very flexible, and most importantly, able to overcome economic problems faced by society. Financial institutions make product innovations, both from one type of transaction, and those that collect from several types of agreements or contracts. Usually, a financial institution that is formed from several transactions into a transaction is called a Hybrid Contract or in terms of Sharia Economic Law called Multi Akad.

Multipurpose financing in Islamic financial institutions is a type of financing provided by Islamic financial institutions to meet various consumer or business needs without violating sharia principles. This financing is usually based on Islamic economic principles, such as the prohibition of riba (interest), the prohibition of double riba (doubling interest), the prohibition of speculation, and the prohibition of transactions containing haram elements.

Here are some common forms of multipurpose financing provided by Islamic financial institutions:

1. Murabahah: This financing is similar to purchasing goods with a price markup system. Islamic financial institutions buy assets desired by customers and then sell them to customers at higher prices. Customers can pay the price in installments.

2. Ijarah: This is a form of lease financing or leasing used to acquire certain assets, such as vehicles or equipment. Islamic financial institutions purchase such assets and lease them to customers with prescribed lease payments.
3. Mudarabah: This financing involves cooperation between customers (mudarib) and Islamic financial institutions (mudarabah). Islamic financial institutions provide capital, while customers provide labor and management. Profits are shared according to the agreement, but losses are borne by Islamic financial institutions.
4. Musharakah: Musharakah is a form of cooperation between two or more parties with a balanced contribution of capital and labor. Profits and losses are divided according to the agreement, and multipurpose financing can be done through musharakah.
5. Qardhul Hasan: It is a form of non-interest financing based on the principle of non-profit lending. Islamic financial institutions provide funds to customers without asking for additional interest.
6. Wakalah: This is a form of financing in which the customer gives a representative or power of attorney to the Islamic financial institution to manage its investment. Islamic financial institutions will manage the investment in accordance with sharia principles and share profits with customers.

Multipurpose financing in Islamic financial institutions must comply with sharia principles, such as fairness, sustainability, and the prohibition of usury. In addition, there are various other financing products that can be tailored to the needs of individuals or businesses while maintaining compliance with Islamic economic principles.

Trade Finance in the financial lembaga is here to help companies in the trading industry. With the support of a very wide and globally recognized network, financial institutions. Committed to serving customers' banking needs in the field of export and import. Letter of Credit (L/C) as a flagship in payments in international trade transactions (export-import activities) is considered to provide certainty and security. The seller or exporter is assured that payment will be made if the documents received are in accordance with the requirements of the L/C and to the buyer or importer it is ensured that payment will only be made by the bank if it is in accordance with the requirements in the L/C.

## **2. IMPLEMENTATION METHODS**

This research uses descriptive qualitative methodology, which seeks to describe and analyze in depth based on the data obtained. The making of this paper is specifically about Hybrid Contracts in Trade Finance and Letters Of Credit in Islamic Financial Institution products. The data obtained is then processed by editing and organizing data methods, then analyzed by deduction methods, the aim is to get a complete description of the concept of hybrid contract contracts in Islamic Financial Institution products.

## **3. RESULT AND DISCUSSION**

### **3.1 Hybrid Contracts in Trade Finance Against Multipurpose Financing**

A hybrid contract in the context of Islamic financial institutions is an agreement or contract that combines elements of a conventional contract and Islamic financial principles. The goal is to create a financial product or service that complies with Islamic principles while still meeting the needs of the wider market.

The drafting of this hybrid contract can be complex, as it must ensure that every element of the contract remains in accordance with sharia principles that prohibit riba (interest) and other activities that are forbidden in Islam. Therefore, Islamic financial institutions often work closely with sharia experts to ensure compliance with Islamic law in these kinds of agreements.

Hybrid contracts in trade finance related to multipurpose financing may include various types of agreements that combine various aspects and requirements to support the financing of multipurpose trade activities. Multipurpose financing is a type of financing used to support various types of trade activities, including imports, exports, and other trade transactions.

The application of hybrid contracts in trade finance related to multipurpose financing can provide several benefits, including:

- a. Increase flexibility and efficiency of trade finance: Hybrid contracts can provide more options for traders to meet their financing needs. For example, hybrid contracts can combine murabahah financing (buying and selling on margin) with ijara (lease) financing to provide a more flexible and affordable financing solution.
- b. Increase the competitiveness of Islamic financial institutions: Hybrid contracts can help Islamic financial institutions to compete with conventional financial institutions. This is because hybrid contracts can offer financial products or services that are more in line with market needs.
- c. Increase financial inclusion: Hybrid contracts can help improve public access to Islamic financial services. This is because hybrid contracts can offer financial products or services that are more affordable and easy to understand.

In the preparation of hybrid contracts, Islamic financial institutions must work closely with sharia experts to ensure compliance with Islamic law. This is important to avoid violating Sharia principles, such as *riba* (interest) and other activities that are forbidden in Islam.

### **3.2 Hybrid Contracts in the Letter Of Credit Against Multipurpose Financing**

A Letter of Credit (L/C), in a simpler context, is the process by which a bank takes on the responsibility of payment at the request of the buyer or customer of the bank, to pay to the recipient of the guarantee or seller, in accordance with the agreed terms and conditions. L/C is often referred to as a documented letter of credit, issued by a bank at the request of an importer in an international trade transaction.

Sharia L/C is divided into two types, namely sharia import L/C and sharia export L/C. In the Codification of Sharia Banking Products issued by Bank Indonesia (BI), it is explained that Islamic import L/C is a document containing a commitment to pay to exporters (beneficiaries) issued by banks (issuing banks) at the request of importers by complying with certain requirements in accordance with sharia principles (Fatwa DSN, 2003: 217).

In general, L/C consists of imported and exported L/C. Sharia Import L/C is a statement letter of payment to the exporter issued by an Islamic bank for the benefit of the importer with the fulfillment of certain requirements in accordance with sharia principles. The implementation of sharia import L/C uses contracts: *wakalah bil ujah*, *qardh*, *murabahah*, *salam / istishna'*, *mudharabah*, *musharakah* and *hawalah*.

- a. Parties involved Parties involved in L/C Letter of Credit :
  - 1) Applicant is the party who applies for the opening of L/C. This applicant is none other than the importer. Another term for this applicant is accountee or buyer.
  - 2) Opening Bank or issuing bank, which is a bank that issues (opens) or issues L/C to importers. The L/C opened by the Opening Bank is always based on the L/C opening application submitted by the applicant (importer).
  - 3) Beneficiary is the party who receives L/C. This party is none other than an exporter or seller, or also called a shipper because he is the one who ships the goods.
  - 4) Advising Bank, which is a bank that forwards L/C to beneficiary. Usually Advising Bank is a correspondent bank of opening banks. In the L/C mechanism, the involvement of bank

advising does not give rise to new responsibilities and obligations. The only obligation that must be carried out is to check the validity (authenticity) of the L/C concerned before forwarding it to the beneficiary

- 5) Negotiating Bank, which is a bank that purchases or takes over documents from exporters. By conducting these negotiations, the negotiating bank makes payments to the beneficiary and thus becomes a bona fide holder of the documents it has taken over.
- 6) Reimbursing Bank is a bank that makes payments back to the negotiating bank for the L/C it redeemed.

In the context of multipurpose financing, customers can request financing from Islamic banks for various purposes such as education, health, home repair, or other personal needs. Islamic banks will offer financing in accordance with sharia principles and will determine a suitable financing structure, for example with Musharakah Mutanaqisah or other instruments, according to customer needs.

### **3.3 Hybrid Contract Concept in Trade Finance and Letter of Credit**

The concept of "hybrid contract" in trade finance and Letter of Credit (L/C) for multipurpose financing refers to the use of a combination of two or more different types of Islamic contracts or agreements to meet complex financing needs in the context of international trade or multipurpose financing. It is a flexible approach that allows Islamic financial institutions to design financing solutions that are in accordance with Islamic principles and the needs of their customers.

Examples of hybrid contracts that may be used in trade finance and L/C for multipurpose financing in Islamic financial institutions include:

- a. Musharakah-Murabahah Trade Financing: In international trade transactions or multipurpose financing, banks and customers can conduct Musharakah (partnerships) to fund merchandise purchases or multipurpose financing. Once the transaction is complete, the bank can sell its shares to the customer using a Murabahah contract to facilitate payment.
- b. Ijarah-Murabahah Trade Financing: A bank can lease certain assets to customers (Ijarah) for use in international trade or multipurpose financing, and then sell those assets to customers at a predetermined price (Murabahah).
- c. Wakalah-Murabahah Trade Financing: The customer may appoint a bank as a representative to make purchases or sales on his behalf in international trade transactions or multipurpose financing. The bank can then sell the product to the customer with a profit margin (Murabahah).
- d. Hybrid LC-Murabahah: Banks can combine a Letter of Credit (L/C) with a Murabahah contract in international trade finance or multipurpose financing. L/C is used to provide payment guarantees to exporters (beneficiaries), while actual payment transactions use Murabahah contracts.
- e. Mudarabah-Wakalah Trade Financing: Banks can act as Mudarib (fund managers) for customers in international trade investments or multipurpose financing, while customers act as fund owners. Net profit from this transaction can be divided between the bank and the customer according to the agreement.

One variation of the compilation of multi-contracts at Islamic financial institutions includes the following contracts:

First, a multi-contract that is mukhtalith (mixed) which produces new names, such as bay' istighlal, bay' tawarruq, musyarakah mutanaqishah, and bay wafa'.

1. Istighlal buying and selling is a mixture of three contracts, namely two buying and selling contracts and ijarah, so that three contracts are formed in one transaction.
2. Tawarruq buying and selling involves a mixture of two buying and selling contracts, namely the

first trade with the first party and the second sale with the third party.

3. Musharakah Mutanaqishah (MMQ) is a contract that combines the contract of shirkah milik with ijarah that is mutanaqishah or sale and purchase that is decreasing. In this cooperation, two or more parties contribute to owning an item or asset, and the cooperation will reduce the ownership rights of one party while the other party increases its ownership rights. This agreement is known by a new name, namely musharakah mutanaqishah (MMQ).
4. [Agustianto, 2013) Bay' wafa' is a combination of two buying and selling contracts that create a new contract. Although initially this contract was a multicontract (hybrid), over time, this contract developed into a contract with a new name, namely bay wafa'.

Second, the Hybrid Contract involves a mujtama'ah/mukhtalifah pattern with the formation of a new contract, but still mentions the name of the pre-existing contract, such as lease purchase (bay' at-takjiry). Other examples include mudharabah musytarakah on life insurance and Islamic bank deposits. Another interesting example is the incorporation of wadiah and mudharabah into a current account, often referred to as Tabungan dan Giro Automatic Transfer Mudharabah and Wadiah. In this case, the customer has two accounts, namely savings and current accounts, which can move automatically if one of the accounts needs it.

Third, Hybrid Contracts involve contracts that do not mix and do not produce new contract names. However, the name of the basic contract still exists, exists, and is applied in a transaction [Agustianto 2013]. Like:

1. Take over financing contract on alternatives 1 and 4 in fatwa DSN MUI No 31/2000
2. Kafalah wal ijarah on credit card,
3. Wa'ad for wakalah murabahah, ijarah, musharakah, etc. on current account financing or line facility
4. Murabahah wal wakalah pd financing murabahah basithah.
5. Wakalah bil ujah on L/C, RTGS, General Insurance, Factoring,
6. Kafalah wal Ijarah on LC, Bank Guarantee, multi service / multi purpose financing, credit card.
7. Mudharabah wal murabahah/ijarah/istisna on financing for employees of cooperative agencies.
8. Hiwalah bil Ujah on factoring
9. Rahn wal ijarah on REPO SBI and SBSN
10. Qardh, Rahn and Ijarah on gold pawn products in Islamic banks

### 3.4 Examples of Islamic Banking Using Trade Finance

Danamon Syariah's Trade Finance service aims to provide assistance to companies in the trading industry. With the support of Danamon's extensive network and the global recognition that has been obtained, Danamon Syariah is committed to meeting the banking needs of its customers in the export and import sectors. The advantages of Sharia Trade Finance Financing services from Danamon include:

1. A very extensive network with more than 400 branches spread throughout Indonesia.
2. Strong cooperation with various leading financial institutions, both domestically and internationally.
3. Danamon's personalized service with a deep understanding of Sharia Trade Financing.

Bank Danamon provides comprehensive trade finance solutions to meet working capital and business investment needs. By committing to provide integrated and competitive Trade Finance solutions in accordance with Sharia principles.

#### **4. CONCLUSION**

Hybrid contracts in trade finance and Letters of Credit (L/C) for multipurpose financing are flexible approaches in designing financing solutions that comply with Sharia principles and complex customer needs. In the context of international trade or multipurpose financing, this concept allows Islamic financial institutions to combine two or more different types of Islamic contracts or agreements to achieve specific objectives. The main advantages of using this "hybrid contract" are:

- a. Flexibility: This concept provides greater flexibility in designing financing solutions that suit complex customer needs. By combining several types of contracts, Islamic financial institutions can provide a more appropriate solution.
- b. Sharia Compliance: Transactions using the concept of "hybrid contract" continue to comply with sharia principles, including the prohibition of riba (interest) and practices contrary to other sharia principles.
- c. Adjustment of Needs: This concept allows Islamic financial institutions to tailor financing solutions to customer needs, both in international trade and multipurpose financing.

However, it is important to note that the use of the hybrid contract concept should be done carefully and with special attention to aspects of Shariah compliance. Transparency, integrity and a deep understanding of Shariah principles are essential in carrying out this type of transaction. Overall, this concept helps Islamic financial institutions to provide financing solutions that are more in line with the needs and principles of sharia to their customers.

#### **REFERENCES**

- Adisasmita, Tsarmin. 2007. *Menangani Transaksi Ekspor Berdasarkan Letter of Credit*. Jakarta: Puji Almasar Lestari Consultan..
- Anwar, Syamsul. 2007. *Hukum Perjanjian Syariah*, Jakarta: Raja Grafindo Persada.
- Budisantoso, Totok. 2006. *Bank dan Lembaga Keuangan Lain*. Jakarta: Salemba Empat.
- Firmansyah, Helan., & Soebana, Dadang Husen. 2014. *Bank dan Industri Keuangan Non Bank (IKNB) Syariah*. Jakarta: PT Naga Kusuma Media Kreatif.
- Ginting, Ramlan. 2002. *Letter of Credit; Tinjauan Aspek Hukum dan Bisnis*. Jakarta: Salemba Empat.
- Heri, Sudarsono. 2007. *Bank dan lembaga Keuangan Syariah Deskripsi Ilustrasi*. Yogyakarta: Ekonesia.
- Iska, Syukri. 2012. *Sistem Perbankan Syariah di Indonesia*, Yogyakarta: Fajar Media.
- Suhendar, Muhammad. 2020. *Penerapan Hybrid Contract Pada Letter Of Credit*. Bandung: UIN Sunan Gunung.
- Maulana, Hasanudin. 2001. *Multiakad Dalam Transaksi Syariah Kontem- porer Pada Lembaga Keuangan Syariah Di Indonesia*. *Jurnal Al-Iqtishad* Vol. III, No. 1, Januari 2001.
- Mudzhar, Muhamed Atho & Maksum, Muhammad. 2017. *Fikih Responsif Dinamika Integrasi Ilmu Hukum, Hukum Ekonomi Dan Hukum Keluarga Islam, Cet I*. Yogyakarta: Pustaka Pelajar.